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Pillar

FROM THE OFFICE OF THE SUPERINTENDENT OF
FINANCIAL INSTITUTIONS CANADA (OSFI)

Normal Course Issuer Bids in the Current Environment

Many Canadian banks and insurance companies have authorized normal course issuer bids in place. Such plans are part of institutions' ongoing capital management processes and require the approval of the Office of the Superintendent of Financial Institutions (OSFI). For efficiency reasons, financial institutions' normal course issuer bids usually have a one-year term.

Notwithstanding OSFI's approval of an institution's normal course issuer bid, OSFI expects that prudent capital management practices will be applied at all times and that the timing of repurchases under those programs, as well as the amount of shares being repurchased, would be consistent with such prudent practices. Currently, shares are not generally being repurchased.

OSFI is of the view that the current environment calls for increased conservatism in capital management and that all financial institutions that have normal course issuer bids in place should not be repurchasing shares pursuant to those bids without first consulting OSFI. The preceding practice should continue until this advisory is withdrawn.

Federally regulated financial institutions may contact their Relationship Manager in the event of questions.

To view the complete documents, visit the OSFI Web site at: www.osfi-bsif.gc.ca

OSFI Releases Revisions to the Segregated Fund MCCSR Guidelines — Letter to Canadian Life and Health Insurance (CLHIA)

Guideline A, Minimum Continuing Capital and Surplus Requirements (MCCSR) establishes the minimum capital rules for segregated fund guarantee (SFG) obligations for life insurers that have approval to use internal models. While OSFI's MCCSR internal models project is on a path to update such rules by 2011, market developments have highlighted the need to more expeditiously update these rules. As such, OSFI is revising such SFG capital rules.

SFG capital rules are currently based on a single confidence level of CTE95, regardless of the date on which an insurer is expected to make payments. As such, these rules may not sufficiently distinguish between the lower capital required to support distant payment obligations and the higher capital required to support near term payment obligations. This is due in large part to the evolution of the SFG products (e.g. SFG contracts generally had a term of 10 years or less when the current MCCSR rules were developed; they now have much longer terms, such as 30 years, or indefinite terms based on an annuitant's life).

Further, the current SFG capital rules are point in time estimates of the risk associated with SFG obligations. As such...

(cont'd pg.2)

Revised MCCR Guidelines (CLHIA letter)—cont'd from page 1

...these rules may cause SFG capital requirements to be susceptible to dramatic swings that may not reflect changes in risk.

The extent of this volatility in capital requirements is inconsistent with the purpose of building capital to absorb future unexpected losses.

OSFI's approach for immediately revising the SFG capital rules for approved internal model companies is available on the OSFI website. These revisions seek to reduce volatility in capital requirements, to ensure that appropriate capital is held in respect of longer term payment obligations and shorter term payment obligations and to increase capital as payment dates become more proximate.

These revisions would be an interim step until OSFI revises its approach to using models for MCCR purposes.

We will prepare an amendment to our MCCR Guideline to give effect to the attached approach. Provided an internal models-based SFG insurer elects to adopt these revisions, we intend that these changes would have effect for its SFG MCCR calculations required after October 1, 2008.

Please communicate this approach to your members. Should your members have any comments or wish to discuss the approach, we would be pleased to discuss these modifications.

Please direct any comments or questions to Bernard Dupont, Capital Division. Mr. Dupont may be reached by e-mail at bernard.dupont@osfi-bsif.gc.ca.

To view the revised MCCR guidelines document, visit the OSFI Web site at: www.osfi-bsif.gc.ca

Draft Instruction Guide for the Preparation of Actuarial Reports for Defined Benefit Pension Plans

The Office of the Superintendent of Financial Institutions (OSFI) has issued an Instruction Guide to inform the pension industry of our current filing and reporting requirements for actuarial reports for defined benefit plans filed pursuant to subsection 12(3) of the Pension Benefits Standards Act, 1985 (PBSA).

The Instruction Guide consolidates policies published in PBSA Update since 2000 and addresses other issues that have emerged since.

This draft Instruction Guide replaces the Instructions for the Preparation of Actuarial Reports for Federally Regulated Defined Benefit Pension Plans that were issued in June 2000. Please direct any comments or questions to Glenn McAllister, Actuarial Consultant, Private Pension Plans Division, at gmcalli@osfi-bsif.gc.ca.

To view the associated draft advisory, visit the OSFI Web site at: www.osfi-bsif.gc.ca

Draft Guideline E-6 – Materiality Criteria for Related Party Transactions

Draft Guideline E-6 establishes criteria for determining whether a transaction with a related party is nominal or immaterial for the purposes of the legislation governing federally regulated financial institutions (FRFIs).

The revisions to the Guideline are intended to achieve three objectives:

- provide additional clarity where necessary;
- reflect legislative changes to the self-dealing regime that have occurred since the original guidelines were issued; and
- consolidate and harmonize the three separate FRFI sector guidelines into one in support of OSFI's commitment to providing a level playing field for all sectors.

Reference should be made to the Guideline Impact Analysis Statement for a more detailed discussion of these objectives.

Please direct any comments or questions to Laural Ross, Director, Special Projects, Legislation and Approvals, by email at laural.ross@osfi-bsif.gc.ca.

To view the associated draft guideline, visit the OSFI Web site at: www.osfi-bsif.gc.ca

OSFI issues letter on CSA disclosure requirements and IFRS progress reviews

CSA disclosure requirements—In an earlier letter dated April 25, 2008, OSFI announced its intention to require Federally Regulated Financial Institutions (FRFIs) not subject to Canadian Securities Administrators (CSA) requirements to adopt the CSA disclosure guidance relating to the changeover to International Financial Reporting Standards (IFRS) for purposes of financial statement filings with OSFI. In May 2008, the CSA issued Staff Notice 52-320, Disclosure of Expected Changes in Accounting Policies Relating to Changeover to International Financial Reporting Standards 2 (the “Staff Notice”). Upon review of the Staff Notice, OSFI has concluded that the semi-annual reports that will be generated from the IFRS progress reviews will provide information appropriate for our needs. Accordingly, FRFIs not subject to CSA requirements will not be expected to file the CSA specified disclosures with OSFI.

IFRS Progress Reviews—OSFI’s April 25, 2008, letter also required all FRFIs to submit semi-annual reports detailing the progress being made to the move to IFRS. To assist in the preparation of semi-annual reports, this letter provides further guidance setting out OSFI’s expectations with respect to the content of such reports. OSFI expects all FRFIs to file semi-annual reports covering the information requirements outlined in Appendix A of the IFRS Progress Review Requirements – Report Content.

In addition to monitoring the status of FRFIs’ implementation plans, OSFI intends to use the information submitted under sections 3 and 4 in its policy development process and will be engaging the industry in a dialogue (including voluntary industry forums hosted by OSFI) as part of that process. Note that prior review of the report contents with a FRFI’s audit committee (or, in the case of a branch, the senior officer to whom the principal officer/chief agent reports) is required prior to filing with OSFI.

The first progress report can be filed at any time after this letter but no later than 60 days following the FRFI’s 2008 fiscal year end. Thereafter, reports can be filed at any point during the last three months of the relevant semi-annual period, but no later than 30 days from the end of such period. Appendix A contains further details regarding the submission of progress reports.

One (1) electronic copy of the progress report must be submitted to OSFI at RID@osfi-bsif.gc.ca, ensuring the subject field is labeled: “IFRS progress report” along with the filing institution’s name.

If you have any questions or concerns regarding these issues, please direct any correspondence to Karen Stothers, Managing Director, Accounting Policy Division, at karen.stothers@osfi-bsif.gc.ca.

To view the complete document, visit the OSFI Web site at: www.osfi-bsif.gc.ca

OSFI memorandum to the appointed actuary (Life Insurance) 2008

Every year, OSFI updates the Memorandum to the Actuary pursuant to Section 667(2) of the *Insurance Companies Act*.

This year’s Memorandum does not include any material changes from 2007. However, we have highlighted Section G.2—Qualifying Participating Contracts, to ensure that the Appointed Actuary documents how the qualifying participating blocks have met the criteria stated in the Minimum Continuing Capital and Surplus Requirements (MCCSR) Guideline.

Actuaries are reminded that they should pay special attention to the current low interest rate environment in setting valuation assumptions and DCAT scenarios. Actuaries are also reminded to disclose the investment assumptions and results of the nine required interest rate scenarios in the (Consolidated Standards of Practice) CSOP.

Actuaries should pay particular attention to any new segregated fund products since we are concerned that companies understand all the risks of such products. Instructions for submitting the Appointed Actuary’s Report to OSFI are shown in Section A.9. Note that for security reasons, the report should not be sent by e-mail.

Should you have any questions, please do not hesitate to contact Sheldon Selby, at sheldon.selby@osfi-bsif.gc.ca.

To view the complete document, visit the OSFI Web site at: www.osfi-bsif.gc.ca

Guide to Intervention for Federally Regulated Life Insurance Companies

In July 2008, OSFI released the Guide to Intervention for Federally Regulated Life Insurance Companies (the "Guide"). It replaces the Supervisory Guide Applicable to Federally Regulated Life Insurance Companies.

The Guide was updated to reflect OSFI's Supervisory Framework, as well as developments that have taken place in OSFI's supervisory practices in recent years.

The objective of the revised Guide remains to promote awareness and enhance transparency of the intervention framework for federally regulated life insurance companies. The Guide:

- outlines the types of involvement that a federally regulated life insurance company can normally expect from OSFI and Assuris;
- summarizes the circumstances under which certain intervention measures may be expected; and,
- describes the coordination mechanisms in place between OSFI and Assuris.

The Guide states that OSFI has primary responsibility for regulating and supervising companies. In exercising this responsibility, OSFI conducts risk-based assessments of their safety and soundness. The Guide also explains that Assuris' role in the intervention process is to protect policyholders by minimizing loss of benefits and ensuring a quick transfer of their policies to a solvent company where their benefits will continue to be honoured.

Questions concerning the Guide should be addressed to Patty Evanoff, Senior Director, Legislation and Approvals Division, at patty.evanoff@osfi-bsif.gc.ca.

To view the complete document, visit the OSFI Web site at: www.osfi-bsif.gc.ca

What's New Online (www.osfi-bsif.gc.ca)

Exposure Draft for Commuted Value Standard of Practice

OSFI has released comments on the Exposure Draft for a revised Commuted Value Standard of Practice (CV Standard) issued by the Actuarial Standards Board (ASB).

New Regulatory Corporate Return for 2008/2009

OSFI announces the creation of a new Corporate Return exclusively for Foreign Representative Offices called the OSFI-595/595A, Return of Foreign Bank Representative Offices.

Standardized Institutions Credit Monitoring Data Call (SICMDC)

OSFI will be requesting new information on credit risk for wholesale and retail portfolios and exposures, for ongoing monitoring purposes.

Financial Action Task Force Proliferation Financing Report

The Financial Action Task Force (FATF) published its *Proliferation Financing Report* dated June 18, 2008.

To view the complete documents, visit the OSFI Web site at: www.osfi-bsif.gc.ca

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